



STARTING LINE

News from START, Louisiana's tax-advantaged 529 college savings program

START's 529 plan tops others

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hile the fees charged by many state-sponsored 529 college savings plans have become targets of industry criticism and governmental review, Louisiana's 529 plan,

the START Saving Program, which charges no fees, is not among that group and has benefits few programs can match.

Because START's benefits are only available to investors with residential ties to Louisiana, the START Saving Program is not given its due by national pundits, such as Morningstar and Fortune magazines. However, in a point by point comparison with a recent Morningstar report, START offers more benefits than most plans, with none of the fees.

Several state 529 plans have been accused of putting the interests of financial-service providers ahead of the consumers they were supposed to help and are currently the subject of two congressional hearings, a Securities and Exchange Commission (SEC) task force review and a securities industry regulatory investigation.

The main complaint against the plans relates to fees levied by plan managers against investor capital. The fees can range from 0.44 percent to 2.90 percent, with an additional brokers' commission of up to 5.75 percent. In some cases, the total fee load can consume as much as one-third of an investor's potential gains. When this occurs, it can offset the tax benefits granted to 529 plans by Congress in order to help families save for college. Another criticism of the plans focuses on their limited investment options for potential investors.

According to Ann Perry, senior writer at TheStreet.com, "Many plans charge a slew of fees. The exact names may vary but they usually include a one-time enrollment fee, ongoing account-maintenance fees, administrative fees and management fees, and in many cases broker fees or commissions."

"Not so with START," said Jack Guinn, executive director of the state agency that administers START. "There are no enrollment fees, no account maintenance fees, no administrative fees, no broker commissions and only "no-load" funds in our six investment options."

Every state, as well as the District of Columbia, offers a 529 plan. Although sponsored by individual states, the administration and money management functions are usually contracted out to well-known investment firms.

"If states really put consumers first when selecting 529 managers, then each would offer the low-cost Vanguard or TIAA-CREF family of mutual funds, which can be purchased without brokers and commissions," Bob Veres, editor and publisher of Inside Information, a newsletter for financial advisers, said.

START's investment options only include mutual funds managed by respected investment manager Vanguard, Inc. The highest investment management fee charged to START for a Vanguard fund is 0.28 percent, a figure that is significantly lower than Morningstar's "best of the best."

Congressional testimony also faulted many of the 529 plans for failing to provide a no-load fund

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"Our goal is to help parents and grandparents save for college as they make the day-to-day purchases associated with raising their family."

Peter Davis,
President &
CEO of
BabyMint, Inc.

START/BabyMint offers tuition rebates

BabyMint Tuition Rewards is a first-of-its kind rebate program available to START account owners that allows members to receive matching tuition credit, redeemable at more than 150 network colleges and universities.

The BabyMint Tuition Rewards are in addition to the 529-plan shopping rebates that can be earned by account owners and their families through the START/BabyMint partnership.

With this unique new program, BabyMint will match each college-savings-plan dollar earned through shopping rebates with a tuition dollar,

redeemable at any participating college or university. There is no additional cost for BabyMint members to participate in this program.

Here's how it works: When a BabyMint member spends \$100 at a participating merchant and receives a seven percent (\$7) rebate into their START account, the account owner will receive an additional matching \$7 Tuition Reward for their beneficiary, redeemable at any participating college or university.

If a START beneficiary attends a non-participating college or university, members will still be able to apply BabyMint shopping rebates toward their START accounts, but will not be able to redeem their Tuition Rewards.

529 plans

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for their account owners. All of the mutual funds in the investment options offered by Louisiana's START Saving Program are no-load.

An additional feature that places START ahead of other plans is its Earnings Enhancements, which are contributions from the state that match a percentage of an investor's deposits. As one of only three states to provide some form of state match (Louisiana, Michigan and Minnesota), Morningstar's Web site praised START's hefty state match in a special report by Shannon Zimmerman.

"Bayou Staters, however, have the biggest reason to cheer," Zimmerman wrote. "Indeed, depending on how much money you make, the state will provide a match of up to 14 percent of your contributions. (The minimum is currently 2 percent, so even the state's high-income earners can participate in at least a portion of the state's match game.)"

Morningstar pointed out that residents who invest in out-of-state plans do not receive the same state-tax-advantaged status as those who invest in state-sponsored plans (such as START).

"The state does not tax the earnings from other 529 plans that are received by residents," said Carol Fulco, director of the START Saving Program. "However, participants in the START program do receive state benefits that are not available to residents who elect to participate in the plans offered by other states."

"With no administrative fees, every dollar deposited to START goes to work for the investor," Guinn said. "Coupled with earnings enhancements, state tax advantages and no-load mutual fund investment options, for a Louisiana resident, START's 529 college savings plan is clearly superior to those offered by other states."

Named for a section of the Internal Revenue Service code, 529s are state-run programs that offer many federal tax breaks. The plans originated with a prepaid tuition contract created in the state of Michigan in 1986, leading to an amendment in the U.S. tax code in 1996, Section 529, allowing certain state tuition programs to defer federal taxes on participants' income. An additional federal tax-law change in 1991 allows 529 earnings to be withdrawn federal tax-free, through at least 2010, if used for qualified education expenses, such as tuition, books and room and board.

Account owner Doll names START mascot



TART account owner David Doll of New Orleans has been named the winner of the Name The START Mascot Contest with his winning entry of **Earl E. START**.

an inscription which read, "Thanks for giving me a name!"

Earl E. START was chosen as the winning name, based on the following subjective criteria: the name is catchy and memorable, is easily recognizable as referring to the START Saving Program and delivers a positive financial aid message.

Doll is a New Orleans native who attended Southeastern Louisiana University in Hammond and serves as a computer programmer at Lockheed Martin. He opened a START account which named his three-year-old son Alex as beneficiary when Alex was one year old.

"I could have selected from any 529 college savings plan in the country, but I chose to open a START account for Alex's college education based on START's outstanding features of matching state contributions, in addition to the state tax advantages," Doll said.

For his prize package, Doll received a personal visit from Earl E. START, who presented Doll with an autographed photograph that included



More than 100 readers participated in the Name The START Mascot Contest. Many of the entries came from children of account owners.

Earl E. START is available for appearances at events, clubs, organizations, companies and schools. To book an appearance, please contact Dawn Love in the LOSFA Publications Section at (225) 922-2318 or dlove@osfa.state.la.us. A START presentation may also be scheduled to coincide with a visit from Earl E. START.

Name The START Mascot Contest winner David Doll (center) and his son Alex (right) receive a visit from START Mascot Earl E. START (left) at their New Orleans home.

Carol Fulco, director of the START Saving Program, provides updates regarding Louisiana's 529 college savings plan.

From the desk of Carol Fulco

- House Bill 486, passed by the Regular Session of the 2004 Louisiana Legislature, clarifies the amount to be remanded to an account owner if a START account is closed after less than 12 months.

The bill, introduced by Rep. Charles McDonald and signed into law by Gov. Blanco as Act 329, states that START accounts invested in the equity options and closed before 12 months will receive a refund equal to the actual value of the deposits or the current value of the deposits, whichever is less.

- The START Web site, located at www.startsaving.la.gov, now provides



account owners with the ability to make online disbursements directly from their START accounts to a beneficiary's school of attendance.

- Combined assets in the START Savings Program passed the \$50 million mark.

NOTICE TO ACCOUNT OWNERS:

In the interest of online security, Social Security Numbers are no longer used for START accounts. When a new application is received, the START programming system randomly generates an account number and assigns it to the owner. This account number — not the beneficiary's or owner's Social Security Number — must be recorded on all payments and correspondence concerning the account.

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